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FISCAL IMPACT STATEMENT

LS 6106

BILL NUMBER: HB 1023

NOTE PREPARED: Jan 28, 2005

BILL AMENDED: Jan 27, 2005

SUBJECT: National Guard Tuition Supplement Grant.

FIRST AUTHOR: Rep. Koch

FIRST SPONSOR:

BILL STATUS: CR Adopted - 1st House

FUNDS AFFECTED: X GENERAL
X DEDICATED
X FEDERAL

IMPACT: State & Local

Summary of Legislation: (Amended) *Reemployment Upon Return From Active Duty:* The bill requires the employer of an individual called to active duty in the Indiana National Guard, when the individual returns from the active duty, to reemploy the individual in the same position or a similar position for a period of time equal to the time the individual served on active duty.

National Guard Re-employment Deduction: The bill provides for a one-time deduction from the employer's adjusted gross income of \$500 for compensation to the individual for the period of reemployment.

State Scholarship Commission: The bill provides that income earned by a member of the Indiana National Guard while deployed overseas is exempt from consideration as income in determining eligibility for the Frank O'Bannon grant program administered by the state student assistance commission.

National Guard Supplemental Grant: The bill extends the eligibility period for the National Guard Tuition Supplement Program (the Program) for a member of the Indiana National Guard called to active duty outside Indiana after September 11, 2001. The bill provides that the extension is equal to the period of active duty.

Effective Date: (Amended) Upon passage; January 1, 2002 (Retroactive).

Explanation of State Expenditures: (Revised) *National Guard Re-employment Deduction:* The Department of State Revenue (DOR) will incur additional expenses to revise tax forms, instructions, and computer programs to incorporate the deduction contained in this bill. The DOR's current level of resources should be sufficient to implement these changes.

National Guard Supplemental Grant: Under the bill, Indiana National Guard (ING, which includes the Indiana Air National Guard) personnel that were receiving a National Guard Supplemental (NGS) grant from the State Student Assistance Commission (SSAC) and called up to active duty outside Indiana after September 11, 2001, would be able to resume their NGS grant upon their return from active duty. Under the bill, a qualifying former member of ING that had been discharged from the service would be eligible to resume their NGS grant.

The impact to state expenditure is indeterminable and would depend on the number of former ING personnel who would qualify to resume an NGS grant under the bill and who are not currently eligible due to their inactive status. Under current law, a grant recipient must remain in the ING in active drill status.

Background NGS: The NGS grant program received a General Fund appropriation (including transfers) of \$2.8M in FY 2004 and \$2.8M in FY 2005. The following table illustrates the last four state fiscal years of students and amounts awarded.

National Guard Supplemental Grants (NGSG)		
Year	Students	Awards Used
FY 2004	841	\$2,215,806
FY 2003	923	\$2,214,787
FY 2002	861	\$1,842,824
FY 2001	503	\$1,026,094

The SSAC reports that 724 students were awarded \$1.39 M in grants for the first half of FY 2005. The SSAC anticipates that they will not meet their expected FY 2005 amount of 950 grant students in the second half of FY 2005 due to deployments. Deployments from October 2002 to September 2003 required approximately 425 ING NGS grant recipients to disenroll from college. Approximately 450 NGS grant students had to leave college due to deployments from August 2003 to August 2004.

State Scholarship Commission: Under the bill the State Scholarship Commission may not consider any salary received by an ING member for thirty days of active duty when applying for a Frank O'Bannon grant. The Frank O'Bannon grant includes grants that were formerly with the Higher Education Award Program and the Freedom of Choice Grants.

Background Higher Education Awards and Freedom of Choice Grants: For FY 2005, the Higher Education Awards Program received a total appropriation of \$99.8 M from state General, dedicated and federal funds. The Freedom of Choice Grants received a total appropriation of \$38.1 M from state General and dedicated funds in FY 2005.

Explanation of State Revenues: (Revised) *National Guard Reemployment Deduction:* The bill would reduce state Adjusted Gross Income (AGI) tax liabilities of individual and corporate taxpayers who re-employs an employee who was called to active duty in the ING. The deduction is effective for such re-employment actions beginning with tax year 2002. The revenue loss due to this bill could potentially total about \$250,000 in FY

2006; with the impact potentially totaling \$80,000 in FY 2007.

The bill creates an AGI Tax deduction for individual and corporate taxpayers that re-employs an employee who was called to active duty in the ING. The deduction is equal to the lesser of: (1) the employee's compensation actually paid by the employer during the re-employment period specified in the bill; or (2) \$500. The deduction would be effective beginning in 2002. According the Adjutant General's Office 5,994 ING personnel have been deployed and come home since the end of 2001. In addition, 3,264 personnel are currently deployed. The fiscal impact estimate assumes that deductions for these 9,258 individuals (5,994 + 3,264) could be claimed in 2005. It also assumes an average of 3,000 personnel annually being deployed and coming home in the near term after 2005. Eighty-six percent of the revenue from the AGI Tax on individuals is deposited in the state General Fund, and 14% of the revenue is deposited in the Property Tax Replacement Fund.

Explanation of Local Expenditures:

Explanation of Local Revenues: (Revised) *National Guard Reemployment Deduction:* Given the proposed deduction would serve to decrease taxable income, counties imposing local option income taxes (CAGIT, COIT, and/or CEDIT) may, as a result, experience an indeterminable decrease in revenue from these respective taxes.

State Agencies Affected: State Student Assistance Commission; Department of State Revenue; State Scholarship Commission.

Local Agencies Affected: Counties with a local option income tax.

Information Sources: Nick Vesper, State Student Assistance Commission; State Budget Agency, Auditor's Trial Balance database; State of Indiana, *List of Appropriations, July 1, 2003 to June 30, 2005*; Lt. Col. Larry Powers, Adjutant General Office, (317) 247-3222.

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